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Consolidated Financial Statements

December 31, 1975

aETNa FacTORS CORPORATION LTD.

Money Market Department
625 Church Street
Toronto, Ontario
M4Y 2G1
(416) 925-0256

Consolidated Balance Sheet

$000's; December 31

ASSETS	1975	1974
Cash and term deposit	$ 3,392	$ 116
Receivables (Note 2)		
Factored accounts receivable	41,147	22,181
Secured loans–		
Factored clients	1,616	1,405
Financed clients	14,825	21,628
Unsecured loans–financed and factored clients	103	19
Assets held for sale (Note 3)	1,236	2,017
Income taxes recoverable	–	205
Advance to a director	–	183
Other receivables	246	180
Total receivables	59,173	47,818
Allowance for losses	2,224	1,492
Receivables, net	56,949	46,326
Inventories, at the lower of cost or net realizable value (Note 4)	598	–
Fixed assets, at cost, less accumulated depreciation of $307,339 and $249,217 respectively	278	281
	$61,217	$46,723

The accompanying notes form an integral part of the consolidated financial statements.

LIABILITIES	1975	1974
Bank and short term notes:		
Bank loans	**$ 3,502**	$14,161
Senior promissory notes (Note 5)	**11,227**	1,575
Balances owing on factored and serviced receivables (Note 6)	**26,643**	14,511
Liability to banks and others under accepted letters of credit and letters of guarantee on behalf of clients	**5,464**	3,052
Accounts payable and accrued charges	**1,406**	1,401
Income taxes payable	**498**	—
Dividend payable	**768**	314
	49,508	35,014
Subordinated notes, due 1978 (Note 7)	**10,000**	10,000
	59,508	45,014

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SHAREHOLDERS' EQUITY		
Capital Stock		
Authorized:		
5,000 6% cumulative, redeemable preferred shares of $100 par value each		
15,000 common shares of $10 par value each		
Issued:		
10,000 common shares	**100**	100
Retained Earnings	**1,609**	1,609
	1,709	1,709
	$61,217	$46,723

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aETNa FaCTORS CORPORaTION LTD. aND SUBSIDIaRIES

Consolidated Statement of Earnings

$000's; Year Ended December 31

	1975	1974
Income		
Factoring commission, interest and service charges	$8,147	$8,341
Other (Note 8)	14	–
	8,161	8,341
Expenses		
Interest—banks and notes	1,716	2,277
Interest—parent company	722	916
Credit losses	464	349
Bad debts provision	488	1,409
Depreciation and amortization	79	72
General and administrative	3,183	2,682
	6,652	7,705
Operating Income	1,509	636
Provision for income taxes	741	322
Net Earnings	$ 768	$ 314

Consolidated Statement of Retained Earnings

$000's; Year Ended December 31

	1975	1974
Balance—beginning of year	$1,609	$1,609
Net earnings for the year	768	314
	2,377	1,923
Dividends	768	314
Balance	$1,609	$1,609

Consolidated Statement of Changes in Financial Position

$000's; Year Ended December 31

FUNDS PROVIDED	1975	1974
Net earnings for the year	$ 768	$ 314
Non-cash item deducted in determination of net income—		
Depreciation and amortization	79	72
	847	386
Increase in:		
Senior promissory notes	9,652	1,575
Balances owing on factored and serviced receivables	12,132	402
Liability to banks and others under accepted letters of credit and letters of guarantee on behalf of clients	2,412	(1,986)
Accounts payable and accrued charges	5	529
Income taxes payable	498	(277)
Dividend payable	454	(357)
	$26,000	$ 272
FUNDS USED		
Decrease in:		
Bank advances	10,659	(7,010)
Increase in:		
Cash	3,276	(15)
Receivables	10,623	6,876
Additions to fixed assets	76	107
Inventories	598	—
Dividends	768	314
	$26,000	$ 272

Notes to Consolidated Financial Statements

December 31, 1975

1. Summary of Significant Accounting Policies

(a) Principles of Consolidation:
The consolidated financial statements include the accounts of the company and all its subsidiaries. All significant intercompany transactions have been eliminated.

(b) Income Recognition:

i) Factoring Commission and Interest
In conformity with industry practice, factoring commissions charged on receivables purchased or serviced are recorded as income in the month of acquisition of such receivables; interest charges on loans and advances are taken into income monthly on the accrual basis.

ii) Income from Sales of Computer Equipment and System Applications
Sales of computer systems consist generally of computer equipment with supporting system applications, which are designed to meet individual customer specifications. As a result, sales, except for equipment-only sales, are recorded when the computer equipment has been installed, the system design has been approved and the applications are operative.

(c) Foreign Exchange:
Foreign currency receivables or debt due to be received or paid within one year are translated to Canadian dollars at either the exchange rate at balance sheet date or at forward contract rates where such contracts have been made.

(d) Losses and Allowance for Losses:
The Allowance for Losses is maintained through charges to income, at an amount deemed adequate to cover losses on outstanding portfolio loans and purchased and guaranteed receivables. It is based upon numerous factors which, in management's judgment, deserve current recognition, including current economic trends, conditions of loan and receivable portfolios and historical loss experience.

Losses on loans are charged to the Allowance for Losses when collectibility becomes questionable and the underlying collateral is considered insufficient to liquidate the loan balance. Credit losses on purchased and guaranteed receivables are charged to the Allowance for Losses when debtors are known to become insolvent or bankrupt.

2. Receivables

The company has entered into service agreements with clients, whereby the company has undertaken the collection of the receivables of those clients and, in addition, has assumed the credit risk with respect to the clients' debtors. Title to these receivables, however, has not been transferred by the clients to the company and, accordingly, these receivables have not been included as an asset in the company's balance sheet. The amount of such receivables as at December 31, 1975 totalled \$23,137,344 (\$17,729,984 as at December 31, 1974); in providing the "allowance for losses" on receivables, the age, condition and collectibility of these accounts were considered.

3. Assets held for Sale

These assets were acquired under instruments of security or similar rights in favour of the company as a result of loans in default, and are carried at the lower of the balance of the client's indebtedness to the company or the estimated realizable values.

4. Inventories

The components of the inventories of a subsidiary company are as follows:

Computer equipment	$441,016
System applications in process, less progress billings of $43,724	157,223
	$598,239

5. **Senior Promissory Notes**

The notes of Aetna Factors Corporation Ltd. are unconditionally guaranteed as to payment by Traders Group Ltd.

6. **Balances Owing on Factored and Serviced Receivables**

Balances owing on factored and serviced receivables include bank loans of clients aggregating $4,820,750 (1974 - $3,159,626) which the respective clients have secured by hypothecation of factored receivables ranking in priority to the security of Aetna Factors Corporation Ltd.

7. **Subordinated Notes**

Under a 1973 subordinated loan agreement, the company may borrow up to a maximum of $10,000,000. The subordinated notes mature five years from date of issue and bear interest at 1½% above the prime bank rate, payable semi-annually.

The agreement provides amongst other covenants, that consolidated current assets (as defined) shall at no time be less than 105% of consolidated total liabilities (as defined).

8. **Income — Other**

Other income represents gross profit earned on sales of computer equipment and system applications by a subsidiary company.

9. **Pension Plan**

The company's obligation for the past service benefits portion of its pension plan is estimated to be $65,000 at December 31, 1975. It is proposed to satisfy this obligation by annual payments of approximately $5,000.

10. **Contingent Liabilities**

As at December 31, the company was contingently liable as guarantor for its clients, as follows:

	1975	1974
	($000's)	
Bank loans under Sections 86 and 88 of the Bank Act	$ 10	$ 88
Other bank loans	1,201	2,475
Unaccepted letters of credit and letters of guarantee	8,248	1,979
	$9,459	$4,542

11. **Lease Obligations**

The company and its subsidiaries occupy office premises under leases which expire in 1981, at an annual rental of approximately $104,000.

12. **Tax Losses**

As at December 31, 1975, the 51% owned subsidiary had losses of approximately $90,000 available for carry-forward for which potential tax recoveries have not been recognized in the accounts.

Auditors' Report

To the Shareholders of
Aetna Factors Corporation Ltd.

We have examined the consolidated balance sheet of Aetna Factors Corporation Ltd. and its subsidiaries as at December 31, 1975 and the related consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RICHTER USHER & VINEBERG
Chartered Accountants • Comptables Agréés
Montreal • Toronto

Montreal, Quebec
February 2, 1976

aETNa FaCTORS CORPORaTION LTD.

a member of the Traders group of companies

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